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Nanfang Communication Holdings Limited

南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

**(1) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE LEASE AGREEMENT;
(2) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE FRAMEWORK PROCUREMENT AGREEMENT;
(3) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE FRAMEWORK SUPPLY AGREEMENT; AND
(4) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE JIANGSU HENGTONG FRAMEWORK PROCUREMENT AND SUPPLY AGREEMENT**

Reference is made to the announcements of the Company dated 4 April 2018 and 28 September 2018 in relation to the continuing connected transactions contemplated under (1) the Existing Lease Agreement entered into between Hengtong Light Guide and Yingke Optical Material; (2) the Existing Framework Procurement Agreement entered into between Hengtong Light Guide and Yingke Optical Material; (3) the Existing Framework Supply Agreement entered into between Yingke Optical Material and Nanfang Optic; and (4) the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement entered into between Nanfang Communication and Jiangsu Hengtong.

As the Existing Agreements will expire on 31 December 2020, the relevant parties entered into the Agreements on 31 December 2020, which include:

- (1) Hengtong Light Guide and Yingke Optical Material entered into the Lease Agreement in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms for the period from 1 January 2021 to 31 December 2023;

- (2) Hengtong Light Guide and Yingke Optical Material entered into the Framework Procurement Agreement in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for the period from 1 January 2021 to 31 December 2023;
- (3) Yingke Optical Material and Nanfang Optic entered into the Framework Supply Agreement in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for the period from 1 January 2021 to 31 December 2023; and
- (4) Nanfang Communication and Jiangsu Hengtong entered into the Jiangsu Hengtong Framework Procurement and Supply Agreement in relation to the ongoing mutual sale and purchase of communication products including optical fibre preforms, optical fibres and optical fibre cables and their raw materials between Nanfang Communication Group and Jiangsu Hengtong Group for the period from 1 January 2021 to 31 December 2023.

IMPLICATIONS UNDER THE LISTING RULES

Yingke Optical Material is an indirect non-wholly owned subsidiary of the Company. As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, Hengtong Light Guide and Jiangsu Hengtong are considered as connected persons of the Company at the subsidiary level.

As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and therefore is also considered as a connected person of the Company at the subsidiary level.

Therefore, the transactions contemplated under the Agreements will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) Hengtong Light Guide, Jiangsu Hengtong and Nanfang Optic are connected persons of the Company at the subsidiary level; (ii) the transactions contemplated under the Agreements are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions contemplated under the Agreements and confirmed that the terms of the Agreements are fair and reasonable, and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 14A.101 of the Listing Rules, the continuing connected transactions contemplated under the Agreements are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the announcements of the Company dated 4 April 2018 and 28 September 2018 in relation to the continuing connected transactions contemplated under (1) the Existing Lease Agreement entered into between Hengtong Light Guide and Yingke Optical Material; (2) the Existing Framework Procurement Agreement entered into between Hengtong Light Guide and Yingke Optical Material; (3) the Existing Framework Supply Agreement entered into between Yingke Optical Material and Nanfang Optic; and (4) the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement entered into between Nanfang Communication and Jiangsu Hengtong.

As the Existing Agreements will expire on 31 December 2020, the relevant parties entered into the Agreements on 31 December 2020, which include:

- (1) Hengtong Light Guide and Yingke Optical Material entered into the Lease Agreement in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms for the period from 1 January 2021 to 31 December 2023;
- (2) Hengtong Light Guide and Yingke Optical Material entered into the Framework Procurement Agreement in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for the period from 1 January 2021 to 31 December 2023;
- (3) Yingke Optical Material and Nanfang Optic entered into the Framework Supply Agreement in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for the period from 1 January 2021 to 31 December 2023; and
- (4) Nanfang Communication and Jiangsu Hengtong entered into the Jiangsu Hengtong Framework Procurement and Supply Agreement in relation to the ongoing mutual sale and purchase of communication products including optical fibre preforms, optical fibres and optical fibre cables and their raw materials between Nanfang Communication Group and Jiangsu Hengtong Group for the period from 1 January 2021 to 31 December 2023.

CONTINUING CONNECTED TRANSACTIONS

A. Lease Agreement

The principal terms of the Lease Agreement are summarised as follows:

Date: 31 December 2020

Parties: (1) Hengtong Light Guide (as landlord)
(2) Yingke Optical Material (as tenant)

Term:	1 January 2021 to 31 December 2023
Subject matter:	Hengtong Light Guide will lease the factory premises with a gross floor area of 5,100 square meters located at No. 2288, Zhongshan North Road, Wujiang Economic Development District, Jiangsu Province, the PRC to Yingke Optical Material.
Basis of rent:	The rent of RMB1,713,600 per annum was determined by the parties after negotiations at arm's length and in good faith with reference to the prevailing market rent for similar properties in the vicinity and the historical transaction amounts. The rent will be reviewed on 31 December each year during the term with reference to the actual situation of the tenancy market.
Other expenses:	During the lease term, Yingke Optical Material shall pay for the miscellaneous expenses arising from the lease of the factory premises, including but not limited to water and electricity charges.
Payment terms:	The rent is payable on quarterly basis and shall be paid within 5 days after the end of each quarter.
Other terms:	Yingke Optical Material shall not sublease the factory premises to other third parties.

Historical amount

For the three financial years ended 31 December 2020, the expenses paid or payable by the Group to Hengtong Light Guide for leasing the factory premises amounted to approximately RMB1,554,000, RMB1,558,000 and RMB1,544,000 respectively.

Note: The amount of expenses paid or payable by the Group to Hengtong Light Guide for the year ended 31 December 2018 includes only the amount of expenses paid or payable by Yingke Optical Material for leasing the factory premises under the Existing Lease Agreement during the period from the date of the Existing Lease Agreement (i.e. 4 April 2018) to 31 December 2018.

Annual caps and basis of determination

The Board estimates that the amount of lease expenses in respect of the lease of the factory premises under the Lease Agreement for the three years ending 31 December 2023 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Lease expenses	1,800,000	1,800,000	1,800,000

In determining the above annual caps, the Directors have considered generally:

- (a) the historical transaction amounts in respect of the relevant transactions for the three financial years ended 31 December 2020;
- (b) the prevailing market rent for similar properties in the vicinity; and
- (c) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operations, business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Hengtong Light Guide.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Lease Agreement is renewed or when there is a material change to the terms of the Lease Agreement.

B. Framework Procurement Agreement

The principal terms of the Framework Procurement Agreement are summarised as follows:

Date: 31 December 2020

Parties: (1) Hengtong Light Guide (as supplier)

(2) Yingke Optical Material (as purchaser)

Term: 1 January 2021 to 31 December 2023

Subject matter: Yingke Optical Material agrees to purchase, on a non-exclusive basis, from Hengtong Light Guide (i) optical fibre preforms and (ii) raw materials for production of optical fibre preforms pursuant to the terms of the Framework Procurement Agreement.

Sale and purchase contract(s): Pursuant to the Framework Procurement Agreement, Yingke Optical Material may, from time to time during the term of the Framework Procurement Agreement, enter into specific sale and purchase contract(s) in respect of the purchases covered by the Framework Procurement Agreement, which will specify, among others, the price and quantity of the optical fibre preforms and/or raw materials for production of optical fibre preforms to be purchased, provided that such sale and purchase contract(s) shall always be subject to the terms of the Framework Procurement Agreement.

Basis of pricing: The price under the sale and purchase contract(s) will be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and on the following principles:

In respect of optical fibre preforms:

The purchase price of the optical fibre preforms is to be determined based on the latest average import price as announced by General Administration of Customs of the PRC at the time of entering into the sale and purchase contract(s), taking into account other factors including procurement quantity, types and delivery method. If such import price is not available or is not applicable, the relevant purchase price (1) shall be determined on a fair and reasonable basis; and (2) shall not be higher than the price payable to or offered by Yingke Optical Material to Independent Third Parties for the purchase of similar products or similar price.

In respect of raw materials for production of optical fibre preforms:

The purchase price of the raw materials for production of optical fibre preforms is to be determined based on the fee quotes obtained from the Independent Third Parties in respect of purchase of the relevant raw materials, taking into account other factors including procurement quantity, types of raw materials and delivery method, which shall not be higher than the price payable to or offered by Yingke Optical Material to Independent Third Parties for the purchase of similar raw materials or similar price.

Other terms: Hengtong Light Guide undertakes to fulfill Yingke Optical Material's demand for the quantity requirement.

Pricing policy

In respect of optical fibre preforms:

The head of the procurement department of Yingke Optical Material will set a predetermined price range at the beginning of each financial year with reference to the latest available import price and such range will be updated from time to time based on the latest information available from the General Administration of Customs of the PRC. Before entering into a sale and purchase contract, the procurement staff shall ensure that the actual contract price is within the predetermined price range. If the price under any sale and purchase contract(s) is higher than the maximum value of the predetermined price range, it must be approved by the head of the procurement department and the general manager of Yingke Optical Material before such sale and purchase contract(s) is made.

If the abovementioned import prices are not available or are not applicable, the procurement staff shall obtain quotations from at least two independent suppliers for the optical fibre preforms prior to entering into the sale and purchase contract(s). The relevant purchase price shall be determined on a fair and reasonable basis with reference to the prices quoted from independent suppliers and shall be no less favourable than the price payable to or offered by Independent Third Parties for similar products.

In respect of raw materials for production of optical fibre preforms:

Before entering into the sale and purchase contract(s), the procurement staff shall obtain fee quotes from at least two independent suppliers for raw materials for the production of optical fibre preforms. Such purchase price should be no less favourable than the price payable to or offered by the Independent Third Parties for the purchase of similar raw materials.

Historical amount

During the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020, the total expenses paid or payable for purchasing optical fibre preforms and/or raw materials for the production of optical fibre preforms by the Group to Hengtong Light Guide amounted to approximately RMB233,580,000, RMB89,374,000 and RMB217,507,000 respectively.

Note: For the year ended 31 December 2018, the amount of expenses paid or payable by the Group to Hengtong Light Guide for the purchase of optical fibre preforms and/or raw materials for the production of optical fibre preforms includes only the purchase expenses paid or payable by Yingke Optical Material under the Existing Framework Procurement Agreement during the period from the date of the Existing Framework Procurement Agreement (i.e. 4 April 2018) to 31 December 2018.

Annual caps and basis of determination

The Board estimates that the procurement fee in respect of the purchase of the optical fibre preforms and raw materials for production of optical fibre preforms under the Framework Procurement Agreement for the three years ending 31 December 2023 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Procurement fee	260,000	260,000	260,000

In determining the above annual caps, the Directors have considered generally:

- (a) historical transaction amounts for the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020;
- (b) the potential demand of Yingke Optical Material for optical fibre preforms and raw materials;
- (c) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the optical fibre preforms and raw materials); and

- (d) and on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operations, business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Hengtong Light Guide.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Framework Procurement Agreement is renewed or when there is a material change to the terms of the Framework Procurement Agreement.

C. Framework Supply Agreement

The principal terms of the Framework Supply Agreement are summarised as follows:

Date:	31 December 2020
Parties:	(1) Yingke Optical Material (as supplier) (2) Nanfang Optic (as purchaser)
Term:	1 January 2021 to 31 December 2023
Subject matter:	Yingke Optical Material agrees to supply, on a non-exclusive basis, to Nanfang Optic (on behalf of Nanfang Optic and its affiliated companies) optical fibre preforms pursuant to the terms of the Framework Supply Agreement.
Sale and purchase contract(s):	Pursuant to the Framework Supply Agreement, Nanfang Optic will, at the end of each month during the term of the Framework Supply Agreement, enter into specific sale and purchase contract(s) in respect of the procurement plan of the optical fibre preforms for the following month covered by the Framework Supply Agreement, which will specify, among others, the price and quantity of the optical fibre preforms to be supplied, provided that such sale and purchase contract(s) shall always be subject to the terms of the Framework Supply Agreement.

- Basis of pricing: The price under the sale and purchase contract(s) will be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and based on the latest average import price as announced by the General Administration of Customs of the PRC at the time of entering into such sale and purchase contract, taking into account other factors including procurement quantity, types and delivery method. If such import price is not available or not applicable, the relevant selling price shall be (1) determined on a fair and reasonable basis; and (2) equivalent to the price offered to by Yingke Optical Material to Independent Third Parties for the sale of similar products or similar price.
- Payment term: Nanfang Optic shall pay for the optical fibre preforms supplied by Yingke Optical Material within 30 days after the issuance of the invoice by Yingke Optical Material.
- Other terms: Under the same terms, Nanfang Optic undertakes to give priority to Yingke Optical Material when purchasing the optical fibre preforms.

Pricing policy

The head of the sales department of Yingke Optical Material will set a predetermined price range at the beginning of each financial year with reference to the latest available import price and such range will be updated from time to time based on the latest information available from the General Administration of Customs of the PRC. Before entering into a sale and purchase contract, the sales personnel concerned shall ensure that the actual contract price is within the predetermined price range. If the price under any sale and purchase contract is lower than the minimum value of the predetermined price range, it must be approved by the head of the sales department and the general manager of Yingke Optical Material before such sale and purchase contract(s) is made.

If the abovementioned import prices are not available or are not applicable, the sales personnel concerned shall, prior to entering into the sale and purchase contract, ascertain the acceptable market price of the optical fibre preforms from at least two independent customers through making marketing calls. The relevant selling price shall be determined on a fair and reasonable basis with reference to such acceptable market price obtained from independent customers and shall be no less favourable than the price payable or offered by Independent Third Parties for the sale of similar products.

Historical amount

For the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020, total revenue received or receivable by the Group from Nanfang Optic for the sale of optical fibre preforms amounted to approximately RMB252,058,000, RMB124,724,000 and RMB70,068,000 respectively.

Note: For the year ended 31 December 2018, the amount of the Group's total sales revenue for optical fibre preforms received or receivable from Nanfang Optic includes only the revenue from the sale of optical fiber preforms received or receivable by Yingke Optical Material under the Existing Framework Supply Agreement during the period from the date of the Existing Framework Supply Agreement (i.e. 4 April 2018) to 31 December 2018.

Annual caps and basis of determination

The Board estimates that the amount of sales revenue in respect of the supply of the optical fibre preforms under the Framework Supply Agreement for the three years ending 31 December 2023 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Sales revenue	116,000	116,000	116,000

In determining the above annual caps, the Directors have considered generally:

- (a) historical transaction amounts for the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020;
- (b) the potential demand for optical fibre preforms by Nanfang Optic for the three years ending 31 December 2023 (being approximately 200 tonnes per year), which is estimated by the Board based on the historical demand of Nanfang Optic for the three years ended 31 December 2020 (being approximately 210 tonnes per year on average);
- (c) the anticipated market price of optical fibre preforms in the PRC market for the three years ending 31 December 2023, which was estimated by the Board based on the average market price of optical fibre preforms as at 31 December 2020 (being approximately RMB580 per kilogram);

- (d) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the optical fibre preforms); and
- (e) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operation, business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Nanfang Optic.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Framework Supply Agreement is renewed or when there is a material change to the terms of the Framework Supply Agreement.

D. Jiangsu Hengtong Framework Procurement and Supply Agreement

The principal terms of the Jiangsu Hengtong Framework Procurement and Supply Agreement are summarised as follows:

Date:	31 December 2020
Parties:	(1) Jiangsu Hengtong (2) Nanfang Communication
Term:	1 January 2021 to 31 December 2023
Subject matter:	Nanfang Communication and Jiangsu Hengtong agree to mutually sell and purchase, on a non-exclusive basis, to each other and their respective affiliated companies (i.e. Nanfang Communication Group and Jiangsu Hengtong Group) communication products including optical fibre preforms, optical fibres and optical fibre cables and their raw materials (the “ Relevant Products ”) pursuant to the terms of the Jiangsu Hengtong Framework Procurement and Supply Agreement.

Sale and purchase contract(s): Pursuant to the Jiangsu Hengtong Framework Procurement and Supply Agreement, Nanfang Communication Group may, from time to time during the term of the Jiangsu Hengtong Framework Procurement and Supply Agreement, enter into specific sale and purchase contract(s) in respect of the sale and purchase covered by the Jiangsu Hengtong Framework Procurement and Supply Agreement, which will specify, among others, the price and quantity of the Relevant Products to be purchased and sold, provided that such sale and purchase contract(s) shall always be subject to the terms of the Jiangsu Hengtong Framework Procurement and Supply Agreement.

Basis of pricing: The prices of the products under the sale and purchase contracts will be determined on normal commercial terms in the ordinary course of business, and such prices shall be the same or substantially similar to the purchase or selling price of the Relevant Products offered by Independent Third Parties.

The scope of the Jiangsu Hengtong Framework Procurement and Supply Agreement has excluded: (a) the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for the period from 1 January 2021 to 31 December 2023 under the abovementioned Framework Procurement Agreement; and (b) the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for the period from 1 January 2021 to 31 December 2023 under the abovementioned Framework Supply Agreement.

Pricing policy

Before entering into a sale and purchase contract, the sales personnel or procurement staff (as the case may be) of Nanfang Communication Group shall obtain quotations from at least two independent suppliers (for procurement) or two independent customers (for sale) in respect of the Relevant Products.

The purchase price and selling price of the Relevant Products are determined based on the fee quotes obtained from Independent Third Parties for the purchase and sale of the Relevant Products and taking into account other factors (including the quantity, type of product and delivery method). The purchase price or selling price shall be no less favourable than the price payable to (for procurement) or offered by (for sale) Independent Third Parties for the purchase or sale of similar products by Nanfang Communication Group (as the case may be).

Historical amount

For the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020: (a) the total fees paid or payable by Nanfang Communication Group for the purchase of Relevant Products from Jiangsu Hengtong Group under the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement were approximately RMB19,716,000, RMB2,374,000 and RMB0 respectively; and (b) the sales revenue received or receivable by Nanfang Communication Group from Jiangsu Hengtong Group for the sale of Relevant Products to Jiangsu Hengtong Group under the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement were approximately RMB0, RMB0 and RMB174,962,000 respectively.

Notes:

- (1) The above aggregate transaction amounts have excluded: (a) the procurement fees for the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide during the period from 4 April 2018 to 31 December 2020 under the Existing Framework Procurement Agreement; and (b) the sales revenue derived from the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic during the period from 4 April 2018 to 31 December 2020 under the Existing Framework Supply Agreement.
- (2) The transaction amounts for the year ended 31 December 2018 includes only the procurement fees paid or payable by Nanfang Communication Group to Jiangsu Hengtong Group and the sales revenue received or receivable by Nanfang Communication Group from Jiangsu Hengtong Group in respect of the Relevant Products from the date of the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement (i.e. 28 September 2018) to 31 December 2018 pursuant to the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement.

Annual caps and basis of determination

In respect of the purchase of the Relevant Products from Jiangsu Hengtong Group:

The Board estimates that the procurement fee in respect of the purchase of the Relevant Products from Jiangsu Hengtong Group by Nanfang Communication Group under the Jiangsu Hengtong Framework Procurement and Supply Agreement for the three years ending 31 December 2023 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Procurement fee	100,000	100,000	100,000

In determining the above annual caps, the Directors have considered generally:

- (a) historical transaction amounts for the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020;
- (b) the estimated procurement budget of the Relevant Products from Jiangsu Hengtong Group by Nanfang Communication Group as at 31 December 2020. The principal basis of consideration for such projection is that the Group has been awarded various contracts for the supply of optical fibre cables, optical distribution network devices and other products (“**Certain Products**”) in the coming year by its major customers through tender. To meet the order quantities for Certain Products as stipulated under the aforesaid contracts, Nanfang Communication Group intends to purchase approximately RMB100,000,000 worth of Relevant Products from Jiangsu Hengtong Group for the production of Certain Products;
- (c) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the Relevant Products); and
- (d) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operations, business environment or government policies which may materially affect the businesses of Nanfang Communication Group and Jiangsu Hengtong Group.

In respect of the sale of the Relevant Products to Jiangsu Hengtong Group:

The Board estimates that the sales revenue in respect of the sale of the Relevant Products to Jiangsu Hengtong Group by Nanfang Communication Group under the Jiangsu Hengtong Framework Procurement and Supply Agreement for the three years ending 31 December 2023 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Sales revenue	200,000	200,000	200,000

In determining the above annual caps, the Directors have considered generally:

- (a) historical transaction amounts for the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020;
- (b) the estimated sales budget of the Relevant Products to Jiangsu Hengtong Group by Nanfang Communication Group as at 31 December 2020;
- (c) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the Relevant Products); and
- (d) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operations, business environment or government policies which may materially affect the businesses of Nanfang Communication Group and Jiangsu Hengtong Group.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Jiangsu Hengtong Framework Procurement and Supply Agreement is renewed or when there is a material change to the terms of the Jiangsu Hengtong Framework Procurement and Supply Agreement.

REASONS AND BENEFITS FOR ENTERING INTO THE AGREEMENTS

In respect of the Lease Agreement

The machineries owned by the Group are located in the factory premises being leased under the Lease Agreement. Therefore, the Directors consider that it would be beneficial and of administrative convenience to the Group for Yingke Optical Material to lease the said factory premises by saving any unnecessary relocation and administrative costs, and avoiding potential damages caused to the machineries in the course of relocation.

In respect of the Framework Procurement Agreement

In view of (i) the business track record of Hengtong Light Guide; (ii) the Group's potential demand for a stable and reliable supply of optical fibre preforms and raw materials for production of optical fibre preforms; (iii) the difficulty to secure another reliable and stable supplier which could meet the Group's quality requirement without incurring additional and potentially significant costs; and (iv) the terms of the sale and purchase contracts to be entered into according to the Framework Procurement Agreement are on terms no less favourable than those terms which can be obtained by Yingke Optical Material from Independent Third Parties, the Directors consider that it would be beneficial to the Group for Yingke Optical Material to purchase optical fibre preforms and raw materials for production of optical fibre preforms from Hengtong Light Guide.

In respect of the Framework Supply Agreement

Considering (i) the Group and Nanfang Optic have had business cooperation for years, which allows them to have a better understanding of each other in respect of the transaction terms and operational practices, thereby reducing the risk of potential business disputes; (ii) Yingke Optical Material is expected to generate stable revenue streams from the supply of optical fibre preforms to Nanfang Optic; and (iii) the terms of the sale and purchase contracts to be entered into according to the Framework Supply Agreement are on terms no less favourable than those terms which can be obtained by Yingke Optical Material from Independent Third Parties, the Directors consider that it would be beneficial to the Group for Yingke Optical Material to supply optical fibre preforms to Nanfang Optic.

In respect of the Jiangsu Hengtong Framework Procurement and Supply Agreement

In view of (i) the business track record of Jiangsu Hengtong; (ii) the Group's potential demand for a stable and reliable supply of the Relevant Products, some of which can be supplied by Jiangsu Hengtong Group after considering the price and other relevant factors; (iii) the difficulty to secure another reliable and stable supplier which could meet the Group's quality requirement without incurring additional and potentially significant costs; (iv) the flexibility in maintaining excess supply of the Relevant Products at relevant time by supplying the same to Jiangsu Hengtong Group to meet its ad hoc demand from, in particular, overseas customers; (v) the maintenance of cordial business relationship with Jiangsu Hengtong Group; and (vi) the terms of the sale and purchase contracts to be entered into according to the Jiangsu Hengtong Framework Procurement and Supply Agreement are on terms no less favourable than those terms which can be obtained by Nanfang Communication Group from Independent Third Parties, the Directors consider that it would be beneficial to the Group for Nanfang Communication Group to purchase/sell the Relevant Products from/to Jiangsu Hengtong Group.

Based on the aforesaid, the Directors (including the independent non-executive Directors) consider that the respective terms of the Agreements and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacturing and sale of optical fibre cables and optical distribution network devices.

INFORMATION ON NANFANG COMMUNICATION

Nanfang Communication is an indirect wholly-owned subsidiary of the Group established in the PRC principally engaged in the manufacturing and sale of optical fibre cables and optical distribution network devices.

INFORMATION ON YINGKE OPTICAL MATERIAL

Yingke Optical Material is an indirect non-wholly owned subsidiary of the Group established in the PRC principally engaged in the manufacturing and sale of optical fibre preforms. As at the date of this announcement, Yingke Optical Material is owned as to 51% by the Group and as to 49% by Hengtong Light Guide.

INFORMATION ON HENGTONG LIGHT GUIDE

Hengtong Light Guide is a limited liability company established in the PRC, which is a wholly-owned subsidiary of Jiangsu Hengtong. The principal scope of business of Hengtong Light Guide consists of the research, development, manufacturing and sale of optical fibre preforms, optical fibres, optical fibre cables and optical devices.

INFORMATION ON NANFANG OPTIC

Nanfang Optic is a limited liability company established in the PRC and is principally engaged in the production of optical fibres. As at the date of this announcement, Nanfang Optic is held as to 49% by Nanfang Communication, 47% by Jiangsu Hengtong and 4% by Suzhou Saitong Advanced Materials Company Limited (蘇州賽通新材料有限公司), which is an Independent Third Party.

To the best of the knowledge, information and belief of the Directors, Suzhou Saitong Advanced Materials Company Limited is a limited liability company established in the PRC principally engaged in the production and processing of materials and mechanical and electrical equipments as well as the research, development and sale of other products, and it is ultimately owned by Mr. Cui Jianqiang (崔建強先生), an Independent Third Party.

INFORMATION ON JIANGSU HENGTONG

Jiangsu Hengtong is a company established in the PRC whose A shares are listed on the Shanghai Stock Exchange and is principally engaged in the manufacturing and sale of communication products including optical fibre preforms, optical fibres, optical fibre cables and their raw materials.

IMPLICATIONS UNDER THE LISTING RULES

Yingke Optical Material is an indirect non-wholly owned subsidiary of the Company. As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, Hengtong Light Guide and Jiangsu Hengtong are considered as connected persons of the Company at the subsidiary level.

As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and therefore is also considered as a connected person of the Company at the subsidiary level.

Therefore, the transactions contemplated under the Agreements will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) Hengtong Light Guide, Jiangsu Hengtong and Nanfang Optic are connected persons of the Company at the subsidiary level; (ii) the transactions contemplated under the Agreements are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions contemplated under the Agreements and confirmed that the terms of the Agreements are fair and reasonable, and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 14A.101 of the Listing Rules, the continuing connected transactions contemplated under the Agreements are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPROVAL OF THE BOARD

The Board has approved the transactions contemplated under the Agreements.

None of the Directors had any material interest in the transactions contemplated under the Agreements respectively. Therefore, no Director is required to abstain from voting on the resolutions of the Board in approving the Agreements.

DEFINITION

Unless the context requires otherwise, capitalized terms used in this announcement shall have the meanings as follows:

“associate(s)” has the meaning ascribed thereto under the Listing Rules

“Agreements”	the Lease Agreement, the Framework Procurement Agreement, the Framework Supply Agreement and the Jiangsu Hengtong Framework Procurement and Supply Agreement
“Board”	the board of Directors
“Company”	Nanfang Communication Holdings Limited (南方通信控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1617)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Agreements”	the Existing Lease Agreement, the Existing Framework Procurement Agreement, the Existing Framework Supply Agreement and the Existing Jiangsu Hengtong Framework Procurement and Supply Agreement
“Existing Framework Procurement Agreement”	the framework procurement agreement dated 4 April 2018 entered into between Yingke Optical Material as purchaser and Hengtong Light Guide as supplier in relation to the purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide
“Existing Framework Supply Agreement”	the framework supply agreement dated 4 April 2018 entered into between Yingke Optical Material as supplier and Nanfang Optic as purchaser in relation to the supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic
“Existing Jiangsu Hengtong Framework Procurement and Supply Agreement”	the Jiangsu Hengtong Framework Procurement and Supply Agreement entered into between Nanfang Communication and Jiangsu Hengtong on 28 September 2018 in relation to the sale and purchase of communication products including optical fibre preforms, optical fibres, optical fibre cables and their raw materials between Nanfang Communication Group and Jiangsu Hengtong Group from time to time

“Existing Lease Agreement”	the lease agreement dated 4 April 2018 entered into between Yingke Optical Material as tenant and Hengtong Light Guide as landlord in relation to the lease of the factory premises by Yingke Optical Material from Hengtong Light Guide
“Framework Procurement Agreement”	the framework procurement agreement dated 31 December 2020 entered into between Yingke Optical Material as purchaser and Hengtong Light Guide as supplier in relation to the purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide
“Framework Supply Agreement”	the framework supply agreement dated 31 December 2020 entered into between Yingke Optical Material as supplier and Nanfang Optic as purchaser in relation to the supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hengtong Light Guide”	Jiangsu Hengtong Light Guide New Materials Company Limited (江蘇亨通光導新材料有限公司), a company established in the PRC and a wholly-owned subsidiary of Jiangsu Hengtong
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and its connected persons
“Jiangsu Hengtong”	Jiangsu Hengtong Optic-Electric Company Limited (江蘇亨通光電股份有限公司), a company established in the PRC and the A shares of which are listed on the Shanghai Stock Exchange

“Jiangsu Hengtong Framework Procurement and Supply Agreement”	the Jiangsu Hengtong Framework Procurement and Supply Agreement entered into between Nanfang Communication and Jiangsu Hengtong on 31 December 2020 in relation to the mutual sale and purchase of communication products including optical fibre preforms, optical fibres, optical fibre cables and their raw materials between Nanfang Communication Group and Jiangsu Hengtong Group from time to time
“Jiangsu Hengtong Group”	Jiangsu Hengtong and its affiliated companies
“Lease Agreement”	the lease agreement dated 31 December 2020 entered into between Yingke Optical Material as tenant and Hengtong Light Guide as landlord in relation to the lease of the factory premises by Yingke Optical Material from Hengtong Light Guide
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nanfang Communication”	Jiangsu Nanfang Communication Technology Company Limited (江蘇南方通信科技有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Nanfang Communication Group”	Nanfang Communication and its affiliated companies
“Nanfang Optic”	Jiangsu Nanfang Optic Electric Technology Company Limited (江蘇南方光纖科技有限公司), a company established in the PRC and held as to 49% by Nanfang Communication, 47% by Jiangsu Hengtong and 4% by Suzhou Saitong Advanced Materials Company Limited (蘇州賽通新材料有限公司), which is an Independent Third Party as at the date of this announcement
“PRC”	The People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholder(s)”	holder(s) of share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yingke Optical Material”	Jiangsu Yingke Optical Material Technology Company Limited (江蘇盈科光導科技有限公司), a limited liability company established in the PRC and held as to 51% by Nanfang Communication and 49% by Hengtong Light Guide
“%”	per cent

The English names of the PRC entities referred to in this announcement are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

By order of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

Hong Kong, 31 December 2020

As at the date of this announcement, the executive Directors are Mr. Shi Ming (chief executive officer), Ms. Yu Rumin and Ms. Yu Ruping; the non-executive Director is Mr. Yu Jinlai (chairman); and the independent non-executive Directors are Mr. Wu Wing Kuen, Mr. Lam Chi Keung and Mr. Chan Kai Wing.